



March 30, 2012

The Jocelyn G. Boyd
Chief Clerk / Administrator
Public Service Commission of South Carolina
101 Executive Center Drive
Columbia, SC 29210

Re: SCPSC Docket No. 1999-434-E/C

Dear Mrs. Boyd:

Pursuant to Regulatory Condition Nos. 4 and 5 adopted by the Commission in its order issued March 6, 2000 in the referenced docket, Progress Energy, Inc. ("PEC") submits for filing its revised Cost Allocation Manual.

This CAM was revised to include:

- the list of 2012 services;
- new product codes for several Service Company services to segregate certain costs for administrative convenience of internal management reporting; and
- a description of a new labor loader for employee cash incentives.

Yours very truly,

A handwritten signature in black ink, appearing to read 'Len S. Anthony', written over the typed name.

Len S. Anthony
General Counsel
Progress Energy Carolinas, Inc.

LSA:mhm

Attachment

cc: Mr. John Flitter

STAREG2388



Progress Energy

Cost Allocation Manual

2012

Version 11



Progress Energy, Inc.

2012 Cost Allocation Manual

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I. Introduction

The purpose of this Cost Allocation Manual (CAM) is to document guidelines and procedures for distributing costs between and among affiliates within Progress Energy's holding company structure. These guidelines are intended to ensure that transactions are (a) properly structured, (b) comply with regulatory requirements and (c) avoid preferential treatment for any subsidiary. More specifically, the entire cost allocation program has been designed to guard against subsidization of one entity at the expense of others.

This CAM has been prepared by Carolina Power & Light Company d/b/a Progress Energy Carolinas, Inc. (PEC), Florida Power Corporation d/b/a Progress Energy Florida, Inc. (PEF), Progress Energy Service Company, LLC (PESC) and Progress Energy, Inc. (PGN) for use when supplying administrative, management and support services to legal entities within Progress Energy. This manual also provides descriptions of allocations of common costs that are general in nature and corporate adders (e.g., benefits). It identifies the services provided by PESC and the allocation methods used for distributing costs associated with such services in accordance with the terms of Service Agreements. This manual also includes the description of services and the allocation methods used by PEC and PEF for specific services in accordance with the terms of Service Agreements.

This CAM is reviewed annually and revised as required for changes in accounting methods, policies and procedures, allocation methods or organizational structures necessitated by changing business requirements. The cost allocation methodologies set forth herein have been designed to fairly assign costs to the appropriate users of the services provided.

II. Process Overview

This section describes the approach every Progress Energy entity should take in their dealings with associate companies. The Controllers of PEC, PEF and PESC provide the direction and oversight to ensure these policies and procedures are followed.

Objective:

Expenses that are core to a business or service are directly assigned to that business or service. Shared expenses or expenses of a corporate nature are cost effectively provided from a centralized organization. Costs are directly billed from the service provider to the receiving entity to the greatest extent practical. Fair and equitable allocation methods are used to distribute costs that are not directly billed.

Guiding Principles:

- Compliance with applicable rules and regulations of all regulatory agencies.
- Compliance with the Progress Energy Carolinas' Code of Conduct and Florida Administrative Code (F.A.C.) Rule 25-6.1351.
- Costs are allocated to those who receive the benefits or cause the costs to be incurred.
- Costs are directly billed when practical.
- Allocations are consistent, equitable and logical.
- The administrative cost to support the allocation methodology does not exceed the benefit received.

Company Reference Definitions:

- **PESC or Service Company** refers to Progress Energy Service Company, LLC as the company *providing* services.
- **PEC** refers to Carolina Power and Light Company d/b/a Progress Energy Carolinas, Inc. (Progress Energy Carolinas) as the company *providing* services.
- **PEF** refers to Florida Power Corporation d/b/a/ Progress Energy Florida, Inc. (Progress Energy Florida) as the company *providing* services.
- **Provider Company** refers to any company within Progress Energy, Inc. as the company *providing* services.
- **Client Company** refers to any company within Progress Energy, Inc. as the company *receiving* services.

Direct Costs:

Direct costs can be specifically identified with providing a particular service or product to a Client Company. Employee labor directly billed to Client Companies includes the cost of payroll taxes, benefits, pensions, incentives and exceptional hours overhead costs. Exceptional hours costs include hours spent on non-work related activities such as: vacation, holiday, sick, other excused hours and occupational accident hours. All of the above "labor adders" on direct labor

costs are classified as direct costs. Costs are directly charged whenever practical. For example, labor charges for a Service Company employee to perform legal services for a Client Company are classified as a direct cost.

Indirect Costs:

Indirect costs cannot be specifically identified with providing a particular service or product to a Client Company. Employee labor allocated to Client Companies includes the cost of payroll taxes, benefits, pensions, incentives and exceptional hours overhead costs.

All of the above "labor adders" on indirect labor costs are classified as indirect costs. Indirect costs are allocated using a fair and reasonable percentage basis. For example, labor charges for a Service Company employee to perform payroll services for Client Companies are allocated based on headcount and classified as an indirect cost.

Service Agreements:

The Provider Company and each Client Company enter into a Service Agreement that sets forth, in general terms, the services to be performed by each organization within the Provider Company directly for or on behalf of each Client Company. The Service Agreements are reviewed periodically and updated as necessary. Authorized representatives of the Provider Company and the management of each Client Company approve the Service Agreements.

Service Agreements will typically contain the following information:

Article I – Services (type and scope)

Article II – Compensation (cost and cost assignment methodologies)

Article III – Term

Article IV – Miscellaneous (accounts and records)

A listing of general services offered with a description of billing allocations and methods is included in the appendix of each Service Agreement.

Accounting Systems:

Progress Energy maintains accounting systems that provide the ability to assign costs to the category of service to which they relate. The systems enable the costs of services to be charged directly to the Client Company for which they were performed or, when appropriate, accumulated in such a manner that they can be distributed or allocated to two or more Client Companies using an approved methodology. Supporting Client Company billing information is also generated.

The systems are based on the use of codes to assign charges to the applicable activity, product, project or functional basis ("Account Codes"). The account numbers conform to the Uniform System of Accounts prescribed by the Federal Energy Regulatory Commission (FERC). The Account Codes facilitate the tracking of the cost of each service by its component costs, such as labor, materials and outside services. The coding provides the ability to break down the costs

of services by amounts directly billed to specific Client Companies (direct costs) and amounts allocated (indirect costs).

The account code segments are as follows:

- **Company** identifies a legal entity and represents the level for which a trial balance may be produced.
- **Line of Business** is a specific sub-division of the company's business such as Energy Supply and Energy Delivery.
- **Charge To** is an organization responsible for ensuring work is performed and paying for costs incurred.
- **Charge By** is an organization responsible for expending resources in the performance of work.
- **Account** identifies a subdivision of accounts established by FERC.
- **Project** is a management-defined grouping of capital, operations and maintenance (O&M), and/or other costed work. A project is composed of one or more activities.
- **Resource Type** is the type of cost or resource used to perform an activity. Examples include labor, materials, transportation costs, etc.
- **Activity** is a unit of work performed within the organization that is meaningful and measurable.
- **Location** is a physical location serving as a cost center (e.g., a plant or generating unit).
- **Product** captures the revenue and expenses associated with producing goods or delivering services.
- **Joint Owner Accounting** code identifies whether a charge is an allocation to a joint owner based upon its ownership interest in generating facilities operated by PEC or PEF, a direct charge to the joint owner or a direct charge to PEC or PEF.

Labor and labor-related costs are the most significant costs related to shared services. Accordingly, Progress Energy maintains time-entry subsystems that enable employees performing shared services to accurately assign hours worked to the appropriate Account Codes. Employees performing shared services prepare standard timesheets or similar records that indicate the purpose of each hour worked by entering this information directly into a time-entry subsystem no later than the last pay period to which it relates. The employees' supervisors approve time records. Charges for labor are made at each employee's effective hourly rate and include the cost of pensions, employee benefits and payroll taxes.

All accounting subsystems, including accounts payable processing, are designed to support the use of the necessary Account Codes. In all cases, the applicable underlying source documents that indicate the nature and purpose of the costs incurred are retained.

To the extent practical, costs are charged directly to the Account Codes associated with the services rendered. The full cost of providing services also includes certain indirect costs, e.g., depreciation, interest and taxes, which cannot be associated with specific services.

Provider Company costs are directly charged or indirectly allocated to Client Companies in the manner prescribed below.

1. Services specifically performed for a single Client Company are directly charged to such Client Company.
2. Costs accumulated in Account or Product Codes for services of a general nature which are applicable to one or more Client Companies are allocated to such Client Companies by application of one or more approved allocation methods.

Billing:

Each Provider Company prepares and submits a bill to each Client Company for services rendered. The bills itemize the cost of each service provided to the Client Company. Bills are rendered on a monthly basis. Within 30 days of the invoice date each Client Company pays each Provider Company for all undisputed charges, except as provided by individual Service Agreements. Interest is charged on any unpaid charges outstanding for 90 days or more.

III. Financial Systems & Business Model Overview

The primary information systems for accumulating costs are Oracle General Ledger and Oracle Project Accounting (PA). Subsystems include Payroll (time and expense reporting for labor), Oracle Accounts Payable (vendor invoices), Passport Supply Chain (material purchases), the Vehicle Management System (M5) and the Information Technology Department's Device Billing system (REMAC), Circuit Database Interface and a Remedy Interface.

Business Model Applications

The cost distribution methods support two business processes: Shared Services of the Service Company and Shared Services of PEC and/or PEF. The differences are summarized as follows:

Shared Services of the Service Company:

- Business process focuses on transfer/reimbursement of Service Company costs to/from Client Companies.
- All Service Company costs must be 100% distributed.

Shared PEC and/or PEF Services:

- Business process focuses on the transfer/reimbursement of costs of shared services to/from Client Companies where the provider of the services is not the Service Company.
- PEC's Code of Conduct says if PEC is providing a good or service to any affiliate other than PEF or PESC, it must be at the higher of cost or market. If PEC is buying a good or service from an affiliate other than PEF or PESC then it must be at the lower of cost or market. If PEC is transacting business with PEF or PESC, it is at cost unless the transaction between PEC and PEF exceeds certain thresholds.
- For PEF, F.A.C. Rule 25-6.1351 provides that transactions between a utility and its parent company or between a utility and its regulated utility affiliates or to services received by a utility from an affiliate that exists solely to provide services to members of the utility's corporate family shall be allocated at cost. Rule 25-6.1351(3)(b), F.A.C, goes on to state, "A utility must charge an affiliate the higher of fully allocated costs or market price for all non-tariffed services and products purchased by the affiliate from the utility. Except, a utility may charge an affiliate less than fully allocated costs or market price if the charge is above incremental cost. If a utility charges less than fully allocated costs or market price, the utility must maintain documentation to support and justify how doing so benefits regulated operations."

Business Model Components

•Cost Accumulation Method

The Oracle Project Accounting module is used to accumulate costs related to a work request. This model provides proof of cost accumulation for reimbursable work performed for the benefit of the Client Company. Provider Company costs are collected and segregated by unique General Ledger Account Code Segment.

1. The Product Code becomes the key cost accumulator mechanism for PESC. Product Codes define the actual services provided. Approved allocation metrics are assigned to Product Codes.
2. Clearing Accounts are another key cost accumulator mechanism. An approved allocation metric is assigned to each Clearing Account

•Cost Distribution Methods

1. Direct Costs are *Provider Company costs entered directly onto a Client Company books*. The Direct Cost distribution method only requires a single project which resides on the Client Company's books. Direct costs have no effect on the Provider Company's income statement. An example of this is a PESC Accounting Department employee working exclusively on behalf of PEC who enters his/her time directly into a PEC project. A payroll liability is created on the Provider Company which is offset by an inter-company receivable on that Company while the Client Company receives the expense and an inter-company payable.
2. Indirect Allocations costs are *transferred from a Provider Company to multiple receiving Client Companies* because the total cost cannot be identified with a specific single receiving organization. An example of this would be "Payroll" – Provide payroll processing services. Payroll charges a Service Company project that is allocated to all participating companies based on headcount of each company.

IV. Corporate Adders

PEC, PEF and PESC each has its own pool for each of the following corporate adders for cost accumulation and distribution **within** each company. Therefore adder rates vary by company.

A. Labor Adders

1. Exceptional Hours:

Exceptional hours are employee labor hours that are not chargeable to productive projects. Examples of these include vacation, sick, holiday, excused time, jury duty, etc. These hours represent additional costs of labor and are not directly charged to valid projects. The exceptional hours adder rate is an estimated amount based on budget and a history of nonproductive time and is recorded as a percentage adder to base productive labor. The percentage adder is a ratio, the numerator of which is the estimated nonproductive labor hours for each company and the denominator of which is the estimated productive labor hours of each company. Each company has its own exceptional hours pool to be distributed to that company's labor. The exceptional hours adder rate is set at the beginning of each year.

The exceptional hours adder is charged to the same account/project as the original base labor charge using the established adder rate. The offset is a credit to the general exceptional hours clearing account recorded for each company, thus decreasing the balance in that account. As actual exceptional hours are incurred, the cost is debited to a single exceptional hours project for each company, increasing the balance in the clearing account.

At year end, any residual balance that exists in the clearing account is distributed back within each respective company.

2. Benefits:

Company benefits costs are incurred on active employees for health care, life insurance, long term disability, medical and salary continuance, stock purchases and company wellness program. Company benefits costs are incurred on retired employees for health care, life insurance, long term disability, medical and salary continuance. Administrative costs associated with managing all benefit plans are also incurred. The employee benefits adder rate is an estimated amount based on budget and is recorded as labor dollars are incurred as a percentage adder. The percentage adder is a ratio, the numerator of which is the estimated employee benefits cost for each company and the denominator of which is the estimated productive labor of each company. Each company has its own benefits adder pool to be distributed to that company's total labor. The employee benefits adder percentage is set at the beginning of each year and is reviewed periodically and adjusted as necessary.

The benefits adder is recorded as a benefits cost to each company and is debited based on the nature of the project to which the original labor is charged. For regulated O&M projects, the benefits expense is recorded to account 926 (Employee Pension and Benefits). For non-regulated O&M projects, the benefits expense is recorded to the same non-regulated O&M account as labor. For capital projects, the benefits cost is recorded to account 107 (Construction Work in Progress). For stores projects, the benefits cost is recorded to account 163. For clearing account projects, the benefits cost is recorded to the appropriate 184 account.

Any residuals remaining in the clearing accounts at year end are distributed back within each respective company.

3. Pensions:

Company pension costs are incurred on active employees. The pension adder rate is an estimated amount based on budget and is recorded as labor dollars are incurred as a percentage adder. The percentage adder is a ratio, the numerator of which is the estimated employee pension cost and the denominator of which is the estimated productive labor. PEC, PEF and PESC each has its own pension adder that is distributed to that company's total labor. The employee pension adder percentage is set at the beginning of each year and is reviewed periodically and adjusted as necessary for material changes in actuarial information.

The pension adder is recorded as a pension cost to each company and is debited based on the nature of the project to which the original labor is charged. For regulated O&M projects, the pension expense is recorded to account 926. For non-regulated O&M projects, the pension expense is recorded to the same non-regulated O&M account as labor. For capital projects, the pension cost is recorded to account 107. For stores projects, the pension cost is recorded to account 163.

Any residual remaining in the pension clearing account at year end is distributed back within each respective company.

4. Payroll Taxes:

Company payroll taxes are incurred for FICA and state and federal unemployment taxes. Payroll taxes are the liability of the specific company that employs the employee. A percentage adder is applied to all base and overtime labor to record the estimated tax costs. The payroll taxes adder percentage is set at the beginning of each year. The numerator is the prior year employer tax expense, adjusted for new tax law changes, and the denominator is prior year base and overtime labor.

The payroll taxes adder is credited to Payroll Tax expense and debited based on the nature of the project to which the original labor is charged. Each payroll cycle, payroll tax expense is debited for the actual payroll tax liability that is incurred. The difference between the adder and the actual payroll tax remains as a debit in Payroll Tax expense.

5. Incentives:

Company incentive costs for active employees are accrued via an incentives rate (an adder). The calculation of the rate is the estimated annual incentives (numerator) divided by estimated annual productive labor (denominator). The incentive estimate is an average of eligible wages times an average expected payout percentage and the incentive cost is a per company cost. The employee incentives adder percentage is set at the beginning of each year and is reviewed periodically and adjusted as necessary. Each company has its own rate.

B. Materials Adders:

FERC allows utilities to aggregate costs associated with purchasing and transporting materials, including data and software support, and charge them out through a percentage burden rate on those materials.

1. Locational Stores:

Locational stores costs include the supervision, labor and other expenses incurred in the purchasing, storage, handling and distribution of materials and supplies related to a particular location or business unit. These expenses are debited to the appropriate 163 (stores) sub-account. As materials are utilized, a rate is applied as a percentage adder to the material cost to allocate these general purchasing and handling costs. Adder rates are determined at the beginning of each budget cycle for PEC and PEF. The rates are calculated by dividing the estimated locational stores expense for each company by the total estimated materials spend for each company. As locational stores adders are applied, they are charged to the same account as the original materials charge. The offset is to the aforementioned 163 sub-account. Locational stores account balances are analyzed periodically by the business units and rates are adjusted as needed in order to ensure all the current year's expenses are cleared out of the account by year end. Any material year end balances are applied to the business unit's current year capital and O&M projects. Locational stores are exclusive to PEC and PEF.

2. Corporate Stores:

Corporate stores costs include the supervision, labor and other expenses incurred in corporate purchasing and handling, along with related software application expenses. These expenses are debited to the appropriate 163 (stores) sub-account. As materials are utilized, a rate is applied as a percentage adder to the material cost to allocate the corporate purchasing, handling and software costs. The corporate stores adder rate is determined at the beginning of each budget cycle for the enterprise. The rate is calculated by dividing the estimated corporate stores expense by the total estimated enterprise materials spend. As the corporate stores adder is applied, it is charged to the

same account as the original materials charge with the offset to the corporate stores 163 sub-account. The corporate stores burden rate is evaluated periodically for appropriateness. If the projected rate differs materially from the existing rate, the rate may be adjusted. If a residual balance exists at year end, it is distributed appropriately based on the current year materials spend.

V. Progress Energy Service Company Allocation Metrics and Services

A. Service Company Allocation Metrics

Service Company costs are direct charged to the extent possible. Costs that cannot be direct charged are allocated to the Client Companies receiving the benefit using one of the following approved allocation metric ratios or rates. Metrics are reviewed periodically and revised as appropriate for changes in accounting methods, policies and procedures, and organizational structures. Rates and ratios are calculated annually and implemented for actuals at the beginning of each year. Interim adjustment to allocation rates/ratios may be made for significant events, such as an acquisition or divestiture of an affiliate.

1. Asset Ratio:

A ratio, the numerator of which is the total assets, net of investment in subsidiaries, goodwill and Accounting Standards Codification (ASC) 410 (formerly Statement of Accounting Standards (SFAS) 143) Asset Retirement Obligations less current assets plus inventory of a Client Company and the denominator of which is the total assets, net of investment in subsidiaries, goodwill and ASC 410 Asset Retirement Obligations less current assets plus inventory of all Client Companies.

2. Headcount Ratio:

A ratio, the numerator of which is the headcount of a Client Company and the denominator of which is the headcount of all Client Companies.

3. Information Technology (IT) Application Chargeback Ratio:

A ratio developed to allocate support for software applications. Costs are allocated on tiered service levels.

- Different tiers are used and the level of service is determined by the application owner based on their needs, such as availability of the application, IT response time, data back up and disaster recovery needs.

4. Information Technology Device Rate:

The rates, the numerator of which is the cost of providing a service for a device and the denominator of which is the number of devices of all Service Company departments and Client Companies. For each fiscal year,

- The rates are calculated using costs and counts estimated during the budget cycle for such year.
- The Service Company and each Client Company department are charged a monthly actual amount determined by multiplying the rate and the actual device count for such department or company.
- Residual costs are allocated based on the year-to-date actuals for each Client Company department and the Service Company at a particular point in time.

- Residual costs may be allocated at intervals during the fiscal year, but final allocations are made at the end of such year.

5. Invoice Ratio:

A ratio, the numerator of which is the number of payables invoices of a Client Company and the denominator of which is the number of payables invoices of all Client Companies.

6. Three Factor Ratio:

The Three Factor Method measures three equally weighted factors to arrive at an allocation percentage for each Client Company. The first factor is a Revenue Ratio, where the numerator is the total gross revenues and dividend income of a Progress Energy Client Company and the denominator is the total gross revenues and dividend income of all Client Companies. The second factor is an Asset Ratio, where the numerator is the total assets, net of investment in subsidiaries, goodwill and ASC 410 asset retirement obligations less current assets plus inventory of a Client Company and the denominator is the total assets, net of investment in subsidiaries, goodwill and ASC 410 asset retirement obligations less current assets plus inventory of all Client Companies. The third factor is a Headcount Ratio, where the numerator is the total number of employees of a Progress Energy Client Company and the denominator is the total number of employees of all Progress Energy Client Companies.

B. Service Company Product Based Allocations:

A general description of each PESC department's services, which may be modified from time to time by the Service Company without notice, and method or methods of allocation used by the department for costs accumulated on work orders of a general nature is documented below. No substitution or material changes are made in methods of allocation hereinafter specified unless a new method of allocation has been requested for approval with documented business justification. Notice of any change in the methods of allocation applicable to a work order is given to the Client Companies affected. Direct costs are used whenever possible and only Client Companies benefiting from the service receive allocations.

➤ **Applications - Investments (D40)**

- Description: Projects to develop new applications or enhance business solutions to meet new or expanded business or regulatory requirements or to add functionality; includes O&M component of capitalized software projects. (Client Companies only).
- Method of Allocation: Direct cost.

- Applications - Investments Service Company (D71)
 - Description: Projects to develop new applications or enhance business solutions to meet new or expanded business or regulatory requirements or to add functionality. Includes O&M component of capitalized software projects. (Service Company only).
 - Method of Allocation: Three factor ratio.
- Applications Support (D46)
 - Description: Support and maintain business applications
 - Method of Allocation: Direct cost.
- Applications Support – Service Company (D47)
 - Description: Support and maintain business applications for PESC
 - Method of Allocation: Three factor ratio.
- ASC 420 (formerly SFAS No. 146)-Carolinas (S79)
 - Description: Amortization of ASC 420 costs associated with exited facilities for which lease period remains; reserve based on present value of difference between future lease/rent payments and anticipated sub-lease revenue (ASC 420 addresses financial accounting and reporting for exit or disposal activities).
 - Method of Allocation: Headcount ratio.
- Audit Planning and Corporate Activities (G24)
 - Description: Includes planning, risk assessment, fraud monitoring, governance audits of Senior Management Committee (SMC) expense accounts, Management Incentive Compensation Plan (MICP), Employee Cash Incentive Plan (ECIP) and special projects.
 - Method of Allocation: Three factor ratio.
- Board of Directors (BOD) Compensation (G43)
 - Description: Costs for BOD compensation plans, including deferrals.
 - Method of Allocation: Direct cost.
- Budgeting and Business Planning (D79)
 - Description: Perform budgeting and business planning.
 - Method of Allocation: Direct cost and Three factor ratio.
- Business Applications Services (D38, D81, D82)
 - Description: Operate and maintain technology solutions to retain existing business functionality. Includes the cost of the data center and extended data center, storage, servers and mainframe costs. (Client Companies only).
 - Method of Allocation: Direct cost using IT Application Chargeback ratio (Client Companies).

- Business Application Services – Service Company (D73, D81, D82)
 - Description: Operate and maintain technology solutions to retain existing business functionality. Includes the cost of the data center and extended data center, storage, servers and mainframe costs. (Service Company only).
 - Method of Allocation: Three factor ratio.
- Business Technology Support – Service Company (D39)
 - Description: Functional and end user support for Service Company technology, training and administrative costs.
 - Method of Allocation: Three factor ratio.
- Capital Markets (D51)
 - Description: Long-term financing, revolving credit agreements, interest rate hedging, mortgage compliance, rating agencies, bank relations, planning.
 - Method of Allocation: Direct cost and Three factor ratio.
- Cash Management (D52)
 - Description: Commercial paper, investments, bank accounts, daily cash management.
 - Method of Allocation: Direct cost and Three factor ratio.
- Charitable Programs (G05)
 - Description: Development, management and oversight of corporate philanthropic programs.
 - Methods of Allocation: Direct cost and Three factor ratio.
- Commercial Transactions (D37)
 - Description: Commercial and real property transactions.
 - Methods of Allocation: Direct cost and Three factor ratio.
- Communications (D45)
 - Description: Engineering and maintenance of voice/data/wireless infrastructure for SCADA, LAN/WAN, circuit outages and non-ED radios.
 - Method of Allocation: Direct cost and Three factor ratio.
- Community Relations Support (D17)
 - Description: Administrative and regional support, consultation, event coordination, relationship management and sponsorship support.
 - Methods of Allocation: Direct cost and Three factor ratio.
- Compensation Design and Evaluation (G13)
 - Description: Design, administration and compliance of base pay, merit, incentives; policies for employees.

- Methods of Allocation: Headcount ratio.
- Contracts – Materials and Services (D64)
 - Description: Maintain contracts; lead and support category analysis; Contract reviews; fleet agreements; liaison with Legal Department.
 - Method of Allocation: Three factor ratio.
- Corporate Ethics Program (G44)
 - Description: Corporate ethics programs including education and investigations.
 - Method of Allocation: Direct cost and Three factor ratio.
- Corporate Governance (G20)
 - Description: Legal services related to general corporate activities, Finance, intellectual property, patents, trademarks, SEC, tax and shareholder relations.
 - Methods of Allocation: Direct cost and Three factor ratio.
- Corporate Guard Force (D27)
 - Description: Management and delivery of security services at corporate offices.
 - Methods of Allocation: Direct cost.
- Corporate Media Relations (G06)
 - Description: Press releases, notifications, proactive and reactive communications and preparation.
 - Methods of Allocation: Three factor ratio.
- Corporate Security Oversight (G18)
 - Description: Corporate security activities and compliance excluding guard forces.
 - Methods of Allocation: Three factor ratio.
- Corporate Strategy and Messaging (G07)
 - Description: Brand design, consultation, management, and oversight.
 - Methods of Allocation: Three factor ratio.
- Credit Evaluation (D77)
 - Description: Activities include various types of credit evaluations covering all types of companies in all industries used by Progress Energy departments in the conduct of energy and commodity trading, power sales and purchases, fuel procurement, supply chain and any other activity where there is a need to determine the financial health of a company with which business is conducted.
 - Method of Allocation: Direct cost and Three factor ratio.

- Customer Relations (D18)
 - Description: Recruiting and retaining industrial customers; sales and service to commercial, industrial and government (CIG) accounts; managing customer relations.
 - Methods of Allocation: Direct cost.
- Deferred Compensation Plans (G40)
 - Description: Costs for management of elected deferrals of PSSP awards as well as management compensation and incentives.
 - Method of Allocation: Three factor ratio.
- Depreciation Expense (C02)
 - Description: Depreciation on Service Company assets; primarily consists of capitalized software, telecommunications infrastructure, IT equipment, furniture and fixtures.
 - Method of Allocation: Three factor ratio.
- Desktop Services (D42)
 - Description: Provide desktop computing hardware, software, operating system and access to the Progress Energy network including underlying services and end-user support (Client Companies only)
 - Method of Allocation: Direct cost using IT Device Rate.
- Desktop Services – Service Company (D69)
 - Description: Provide desktop computing hardware, software, operating system and access to the Progress Energy network including underlying services and end-user support (Service Co. only)
 - Method of Allocation: Three factor ratio.
- Direct Charge Benefits (471)
 - Description: Pass through costs associated with various employee and executive benefit programs for which PESC acts as pay agent on behalf of Client Companies.
 - Method of Allocation: Direct cost.
- Disbursements – Fuel and Purchased Power (D57)
 - Description: Payment of fuel and purchased power vendors and related analysis and reporting.
 - Method of Allocation: Direct cost and Invoice ratio.
- Disbursements – Traditional (D58)
 - Description: Payment of vendors and related analysis and reporting; vendor file maintenance.
 - Method of Allocation: Invoice ratio.

- Diversity and Inclusion (G26)
 - Description: Develop strategies and programs to support diversity and inclusion for the enterprise; management consultation; education and training.
 - Method of Allocation: Headcount ratio.
- Employee Communications and Intranet (G14)
 - Description: Development, management and logistical support for corporate based employee communications.
 - Methods of Allocation: Headcount ratio.
- Enterprise Risk Management (G27)
 - Description: Research, compile and provide data and information; evaluate risks; make recommendations.
 - Method of Allocation: Three factor ratio.
- Environmental and Safety (D12)
 - Description: Environmental and Occupational Safety & Health Administration (OSHA) matters.
 - Methods of Allocation: Direct cost.
- Environmental Disposal (D59)
 - Description: Materials analysis and support.
 - Method of Allocation: Direct cost.
- Environmental, Health and Safety Standards (EH&S) and Oversight (G01)
 - Description: Governance of EH&S standards and policies.
 - Methods of Allocation: Three factor ratio.
- Equipment Testing and Repair (D29)
 - Description: Evaluate transformers, rubber goods and equipment; refurbishment; disposals; inspection and maintenance.
 - Method of Allocation: Direct cost.
- Estimated Allocation (EST)
 - Description: Used to manually allocate any PESC unallocated residual costs so that PESC revenue and expenses net to zero; reversing entry only.
 - Method of Allocation: Three factor ratio.
- Executive Compensation and Benefits (G15)
 - Description: Design, administration and compliance of base pay, merit, short-term and long-term incentives, benefits and perquisites for executives; liaison to Organization and Compensation Committee of the BOD; ensure executive benefit

plans are in compliance with tax rules; monitor changes in laws/regulations to ensure executive compensation is reported properly in financial reports and proxy materials.

- Methods of Allocation: Three factor ratio.

➤ Executive Management and Support (G29, G45)

- Description: Executive costs and projects such as: Coordinate BOD meeting agendas and presentations, monthly Chief Executive Officer (CEO) letter, annual CEO evaluation; Finance and Operations & Nuclear Oversight Committees; coordinate agenda, presentations, advance mailings, meeting minutes; various SMC needs including non-BOD presentations, speeches.
- Method of Allocation: Direct cost and Three factor ratio.

➤ External Reporting (G02)

- Description: Reporting necessary to meet SEC requirements and to complete consolidation work, includes accounting policy and research and audit fees.
- Methods of Allocation: Direct cost and Three factor ratio.

➤ Federal External Relations (G09)

- Description: Outreach to federal legislature and agencies, identify and evaluate potential policy changes, develop policy positions, build relationships, advocate positions, collaborate with like-minded companies and associations/coalitions, establish support and shape outcomes.
- Methods of Allocation: Three factor ratio.

➤ Federal Regulatory Matters (D13)

- Description: Federal regulatory matters, federal regulatory and FERC affairs support.
- Methods of Allocation: Direct cost and Three factor ratio.

➤ Financial and Strategic Planning – Enterprise (G30)

- Description: Manage various strategic initiatives and projects sanctioned by senior management including analysis and interpretation of competitor strategies and financials as well as assessing regulatory, competitive, legal and market; manage consolidated financial forecast, earnings and cash flow projections; various analyses of O&M and other areas of significant financial impact; support Investor Relations and Treasury for analyst meetings, earnings releases, rating agencies and financings; scenario developments; BOD and SMC support; manage functional requirements of Utility International dynamics; facilitate and support overall strategic planning framework including development of corporate strategic plan and support of utility specific strategic and business planning processes.
- Method of Allocation: Three factor ratio.

- Financial and Strategic Planning – Utilities (D53)
 - Description: Managing various utility strategic initiatives and projects sanctioned by senior management including analyzing/interpreting competitor strategies and financials as well as assessing regulatory, competitive, legal and market dynamics; facilitate and support overall strategic planning framework including development of utility strategic plans and support of associated processes.
 - Method of Allocation: Direct cost and Three factor ratio.
- Flight Operations (G31)
 - Description: Operations and maintenance of corporate aircraft.
 - Method of Allocation: Three factor ratio.
- Freight and Logistics (D61)
 - Description: Receiving, picking, issues and transfers, delivery repairs, returns, loading.
 - Method of Allocation: Materials adder and Three factor ratio.
- Fuel Costs (D48)
 - Description: Vehicle fuel costs.
 - Method of Allocation: Direct cost.
- Human Resources (HR) Policy and Benefits Administration (D22)
 - Description: Employee information line, transition support administration, employee survey administration, new hire processing, absence management, relocation; vendor management, and compensation administration.
 - Methods of Allocation: Headcount ratio.
- Information Services (G16)
 - Description: Corporate library, records, policies and procedures, copy services, real estate documents center.
 - Methods of Allocation: Headcount ratio.
- Insurance Management (D54)
 - Description: Identify insurable risks and manage insurance and self-insurance programs and related requirements, nuclear property, nuclear extra expense, nuclear liability primary, suppliers & transporters nuclear liability insurance, nuclear workers program, nuclear secondary financial protection, excess general liability, crime, excess workers' compensation (WC), non-nuclear property; primary WC & United States long shore & harbor workers insurance, primary general liability, pollution liability programs, state self-insurance renewals (NC, SC, FL, WC and auto).
 - Method of Allocation: Three factor ratio.

- Interest Expense and Income (C05)
 - Description: Interest income and expense on Service Company participation in money pool; interest income on the Voluntary Employees' Beneficiary Association (VEBA Trust) account.
 - Method of Allocation: Three factor ratio.
- Internal Reporting and Cost Management (D08)
 - Description: Internal financial reporting to support legal entities and business units.
 - Method of Allocation: Direct cost and Three factor ratio.
- Inventory Management and Control (G36)
 - Description: Supervising, directing resources, liaising with customers; inventory control processes; cost monitoring.
 - Method of Allocation: Direct cost.
- Investor Relations (G10)
 - Description: Manage relations with the financial community.
 - Methods of Allocation: Three factor ratio.
- IT&T Architecture (G21)
 - Description: Architecture and life cycle planning for servers and peripheral, transport, data network, wireless, mobile, measuring and collaboration, desktops, laptops, ruggedized system, voice, video, etc.
 - Method of Allocation: Three factor ratio.
- IT&T Infrastructure (G35)
 - Description: Department administrative budget, department administrative support, account executives, directors, principals, videoconferencing support, education assistance, cash and non cash awards.
 - Method of Allocation: Three factor ratio.
- IT&T Infrastructure Capital (D68)
 - Description: Projects to develop new services to meet business technical or regulatory requirements. Includes all technical support activities for hardware, software, data, voice, wireless, video communications and facilities infrastructure such as HVAC, Motor Generators, etc.
 - Method of Allocation: Direct cost.
- IT&T Security (G22)
 - Description: Develop and monitor compliance with cyber security policy to ensure integrity of company data.
 - Method of Allocation: Three factor ratio.

- Labor and Employment Matters (D34)
 - Description: Employment, labor relations, workers' compensation and benefit matters.
 - Methods of Allocation: Direct cost and Three factor ratio.
- Labor Accruals (481)
 - Description: Monthly accrual for PESC labor costs resulting from timing of payroll cycles.
 - Method of Allocation: Three factor ratio.
- Land Acquisition and Management (G19)
 - Description: Timber and lakeshore activities; land disposition.
 - Methods of Allocation: Direct cost and Three factor ratio.
- Leasehold Improvements (C10)
 - Description: Amortization of long-term improvements made to leased corporate facilities, including office construction and facility up fits (elevators, windows), primarily Progress Energy Building (PEB) and Two Progress Plaza (TPP)
 - Method of Allocation: Three factor ratio.
- Liability and Workers Compensation Insurance (C60)
 - Description: Excess workers compensation insurance.
 - Method of Allocation: Direct cost and Three factor ratio.
- Litigation (D35)
 - Description: Bankruptcy and collections, commercial, employment, real property and tort Litigation.
 - Methods of Allocation: Direct cost and Three factor ratio.
- Litigation Claims Settlements (C25)
 - Description: Legal claim settlements associated with employment/labor and injury/damage related cases.
 - Method of Allocation: Direct cost and Three factor ratio.
- Maintain Facilities - Corporate (D76)
 - Description: Maintenance of corporate buildings, including mail, cleaning, landscaping, utilities, repairs.
 - Methods of Allocation: Headcount ratio.
- Maintain Facilities - Regional (D30)
 - Description: Maintenance of regional buildings, including mail, cleaning, landscaping, utilities, repairs.
 - Methods of Allocation: Direct cost.

- **Maintain Vehicles (D49)**
 - **Description:** Management and delivery of vehicle maintenance functions.
 - **Method of Allocation:** Direct cost and Three factor ratio.
- **Management Consultation and Employee Relations (D23)**
 - **Description:** Labor relations strategy, negotiations, management consultation regarding memorandum of agreement (MOA); grievances and arbitrations; Equal Employment Opportunity (EEO) compliance, reporting and investigations; develop HR strategies to support company and business needs; use key metrics to proactively identify issues and recommend solutions before they impact the business; serve as liaison to/from HR to the business (implement standard operating procedures, policies); conflict resolution between management and employees.
 - **Methods of Allocation:** Direct cost and Headcount ratio.
- **Market Research (D19)**
 - **Description:** Provide customer-focused research and consulting services, including: develop, maintain and apply customer databases and tools; develop, manage, analyze and interpret customer satisfaction/feedback programs and provide customer service, delivery and demand side management (DSM) organizations prioritized guidance to improve and maintain customer satisfaction; develop, manage, analyze and interpret customer perceptions research to support key utility initiatives and to support CIG account management, DSM, Distribution, etc.; design, manage, analyze and interpret ad hoc research to help guide development and to evaluate the effectiveness of brand advertising and marketing/promotional communications, efficiency and demand response programs, and other optional products and services; design, administer and report internal studies to help guide business decisions and evaluate programs.
 - **Methods of Allocation:** Direct cost and Three factor ratio.
- **Media Buy and Ad Production (G11)**
 - **Description:** Evaluation and selection of media types (i.e. TV, radio, print) and volume of advertising; ad production and placement.
 - **Methods of Allocation:** Direct cost and Three factor ratio.
- **Miscellaneous Service Company Corporate Expenses (C72)**
 - **Description:** Includes true-ups for burden residuals, account reconciliation write-offs and other miscellaneous items not included in other categories.
 - **Method of Allocation:** Direct cost and Three factor ratio.
- **Month-End Close/Internal Controls (D09)**
 - **Description:** Activities necessary to perform monthly closing and controls such as accruals, journal entries, account reconciliations and analysis, evaluation of unusual

- transactions, control documentation.
 - Method of Allocation: Direct cost and Three factor ratio.
- Multifunction Printing Devices (MPD)/Copier/Fax (D43)
 - Description: Provide hardware and software used to produce hard copy and sometimes soft copy output.
 - Method of Allocation: Headcount ratio.
- Nuclear Insurance Premiums and Credits (C62)
 - Description: Nuclear liability and property insurance; distribution from Nuclear Electric Insurance Limited (NEIL) for returns on nuclear trust fund.
 - Method of Allocation: Direct cost.
- NuStart (S95)
 - Description: Earnings related to NuStart.
 - Method of Allocation: Direct cost and Asset ratio.
- Operating Lease (C86)
 - Description: Amount paid to PEC for PESC use of PEC assets (excludes building space) that is attributable to support of PEF.
 - Method of Allocation: Direct cost.
- Other Executive Benefits (G42)
 - Description: Miscellaneous executive benefits including financial planning, grantor trust.
 - Method of Allocation: Three factor ratio.
- Other Insurance (C61)
 - Description: Directors and officers liability, fiduciary liability, excess liability and other miscellaneous insurance plans.
 - Method of Allocation: Direct cost and Three factor ratio.
- Passport Application Services (D74)
 - Description: Operate and maintain Passport specific technology solution to retain existing business functionality; includes the cost of the data center and extended data center, storage, servers and mainframe costs.
 - Method of Allocation: Direct cost.
- Payroll Processing (D24)
 - Description: Calculating, distributing, and recording payroll; maintaining payroll master files; recording time.
 - Methods of Allocation: Headcount ratio.

- Perform Audits (D55)
 - Description: Perform routine financial, operational and compliance audits.
 - Method of Allocation: Direct cost and Three factor ratio.
- Performance Share Sub-Plan (PSSP) (G38)
 - Description: Costs associated with PSSP grants, amortized over vesting period.
 - Method of Allocation: Three factor ratio.
- Procurement – Materials and Services (D62)
 - Description: Request for quote (RFQ) preparation, quote receipt, evaluation; Purchase order creation, issue and revision; Price updates, follow-ups, expediting, and handling order discrepancies
 - Method of Allocation: Direct cost and Three factor ratio.
- Project Assurance (D14)
 - Description: Develop and deliver education and awareness programs to key employees and contract personnel; implement policy and program documents that facilitate prudent decision making; support major projects to ensure that documentation of key project decisions is adequate to explain the basis for and reasonableness of the decision; assist line management in the institutionalization of production making into operational processes, procedures and practices
 - Methods of Allocation: Direct cost and Three factor ratio.
- Property Insurance (C59)
 - Description: Insurance for all company non-nuclear property.
 - Method of Allocation: Direct cost and Three factor ratio.
- Property Taxes (C04)
 - Description: Taxes associated with property in the name of Service Company; includes leased buildings TPP and PEB, leased aircraft and other minor buildings and parcels of land.
 - Method of Allocation: Three factor ratio.
- Recruiting (D56)
 - Description: Recruiting for active vacancies; pipeline program development and administration (internships, co-ops, college, military, diversity); employment testing.
 - Method of Allocation: Direct cost and Headcount ratio.
- Regulatory Reporting and Support (D15)
 - Description: Develop and execute regulatory strategies that ensure acceptable returns in each jurisdiction including cost of service studies; real time pricing, rate administration and transmission tariff issues; ensure recovery of all applicable costs through appropriate pass-thru clauses to include all applicable regulatory filings;

- planning and coordination of base rate filings.
 - Methods of Allocation: Direct cost.
- Rent and Lease Administration - Corporate (D28, D84)
 - Description: Lease administration and rent costs for corporate buildings.
 - Methods of Allocation: Direct cost and Headcount ratio.
- Resource Sharing (C84)
 - Description: Provide additional labor resources to client companies for storm support.
 - Method of Allocation: Direct cost
- Restricted Stock Units (RSU) (G39)
 - Description: Costs associated with RSU grants, amortized over vesting period.
 - Method of Allocation: Three factor ratio.
- SERP and Pension Restoration (G41)
 - Description: Supplemental retirement plan and pension restoration for SMC.
 - Method of Allocation: Three factor ratio.
- Service Company Infrastructure (D78)
 - Description: Includes costs associated with Service Company at a business unit level including MICP, ECIP, parking supplement, workers compensation, and service awards.
 - Method of Allocation: Three factor ratio.
- Service Company Tax Expense and Tax Savings Initiative (C88)
 - Description: PGN income taxes attributable to PESC resulting from permanent book versus tax differences for non-deductible and partially deductible expenditures; payroll tax burden residual; consulting expenses associated with enterprise tax savings initiatives.
 - Method of Allocation: Three factor ratio.
- State and Local External Relations (D20)
 - Description: Owning relations with state-level policy makers, community leaders and politicians, local media outlets, and local economic developers; also includes grassroots and third-party development and Political Action Committee (PAC).
 - Methods of Allocation: Direct cost and Three factor ratio.
- State Regulatory Reporting and Support (D16)
 - Description: State regulatory and legislative matters; state regulatory affairs support.
 - Methods of Allocation: Direct cost and Three factor ratio.

- Strategic Land Management – Utilities (D31)
 - Description: Strategic activities associated with short and long term land needs including modeling, Finance Committee and monthly business review support, project review group support, utility BOD preparation.
 - Methods of Allocation: Direct cost and Three factor ratio.
- Sublease Revenue (D75)
 - Description: Revenue associated with sub-lease of space in corporate buildings.
 - Methods of Allocation: Direct cost and Headcount ratio.
- Supplier Diversity (G33)
 - Description: Supplier diversity functions.
 - Method of Allocation: Three factor ratio.
- Supply Chain Center of Excellence (COE) Processes and Standards (G37)
 - Description: COE process mapping, defining roles and responsibilities, procedures, standards, tools.
 - Method of Allocation: Three factor ratio.
- Supply Chain Client Management (D11)
 - Description: Nuclear Generation Group (NGG) corrective action program evaluator (CAP); self-assessments; root cause analysis; General Services Administration (GSA) compliance; compliance monitoring and enforcement associated with contracting and/or purchasing evolutions; performance monitoring; process and procedure compliance.
 - Method of Allocation: Three factor ratio.
- Supply Chain Governance (G34)
 - Description: VP Admin/Director; NGG CAP evaluator; self-assessments; root cause analysis; GSA compliance; compliance monitoring and enforcement associated with contracting and/or purchasing evolutions; performance monitoring; process and procedure compliance.
 - Method of Allocation: Three factor ratio.
- Talent Development (D25)
 - Description: Program design and management for leadership/employee development; career planning and development planning consulting; mentoring.
 - Methods of Allocation: Direct cost and Headcount ratio.

- Tax Audits (G03)
 - Description: Federal and State audits including examinations and appeals; sales tax, gross receipts tax, utility and property tax audits.
 - Methods of Allocation: Direct cost and Three factor ratio.
- Tax Compliance (G04)
 - Description: Preparation of income and property tax returns; tax internal and external reporting and analysis.
 - Methods of Allocation: Direct cost and Three factor ratio.
- Tax Planning (D10)
 - Description: Supporting and documenting accelerated income tax deductions and credit opportunities (repairs, Research & Experimentation (R&E), bonus, pollution control); contract support and transaction planning (sales tax, contribution in aid of construction, state tax issues)
 - Methods of Allocation: Direct cost and Three factor ratio.
- Telecom Investments (D41)
 - Description: Projects to develop new services to meet business technical or regulatory requirements; includes all technical support activities for hardware, software, data, voice, wireless and video communications. (Client Companies only).
 - Method of Allocation: Direct cost.
- Telecom Investments – Service Company (D72)
 - Description: Projects to develop new services to meet business technical or regulatory requirements; includes all technical support activities for hardware, software, data, voice, wireless and video communications. (Service Company).
 - Method of Allocation: Three factor ratio.
- Travel Center (G17)
 - Description: Employee travel related services.
 - Methods of Allocation: Headcount ratio.
- Utility Communications (D21)
 - Description: Business unit related media relations, consultation, support and issues management; collateral support for regional managers and energy efficiency programs.
 - Methods of Allocation: Direct cost.
- Vehicle Claim Settlements (D33)
 - Description: Claims services for vehicle damage/injury claims.
 - Methods of Allocation: Direct cost.

- Vehicle Costs (D50)
 - Description: Depreciation, acquisition, disposition of vehicles.
 - Method of Allocation: Direct cost.
- Vehicle Ownership (G23)
 - Description: Includes oversight, management, external compliance and internal standards.
 - Method of Allocation: Direct cost.
- Vendor and Commodity Management (G32)
 - Description: Supply chain strategy, vendor management, commodity management, Spend/Market analysis, forecasting.
 - Method of Allocation: Three factor ratio.
- Wholesale – Joint Owner (JO) Billing (D66)
 - Description: Billing of wholesale contracts and joint owner activity plus related support and JO audits.
 - Method of Allocation: Direct cost.
- Wireless Services (D44)
 - Description: Wireless voice and data communications hardware, peripherals and services such as cell phones, pagers, blackberries, etc. (Client Companies only).
 - Method of Allocation: Direct cost using IT Device Rate.
- Wireless Services – Service Company (D70)
 - Description: Wireless voice and data communications hardware, peripherals and services such as cell phones, pagers, blackberries, etc. (Service Company only).
 - Method of Allocation: Three factor ratio.
- Wireline Infrastructure (D67)
 - Description: Provide dedicated data circuits, 800 Service, Local, Long Distance, & Satellite Services.
 - Method of Allocation: Headcount ratio.

C. Service Company Clearing Account Based Allocations

Actual benefit costs are captured in 184 clearing accounts on the Service Company. The accumulated actual costs are allocated to Associate Companies as well as to the Service Company (see Section V.A). Direct costs are used whenever possible and only Client Companies benefiting from or incurring services receive allocations. The method of allocation for all 184 benefits clearing accounts is Direct Cost and Headcount Ratio.

- **Active Healthcare:** The pool used to accumulate medical, dental and vision health plan costs for active employees
- **Active Life/Accidental Death and Dismemberment (AD&D):** The pool used to accumulate premium costs for life, short term disability and AD&D programs for active employees.
- **Retiree Health & Welfare:** The pool used to accumulate retiree medical, dental, vision and life costs. Retiree premium withholdings are recorded as a credit.
- **Long Term Disability (LTD) Health and Welfare:** The pool used to accumulate all medical, dental, vision life and AD&D costs for long-term disability employees.
- **LTD Salary Continuation:** The pool used to accumulate salary continuation benefit plan costs for long-term disability employees.
- **Administer Employee Benefits:** The pool used to accumulate internal labor costs and plan administration fees and costs for administering all active and retiree benefit programs as well as wellness plan costs for active employees.

VI. Progress Energy Carolinas List of Metrics and Services

A. Progress Energy Carolinas Allocation Metrics

Progress Energy Carolinas' costs are direct charged to the extent possible. Costs that cannot be direct charged are allocated to the Client Company receiving the benefit using one of the following approved allocation metric ratios or rates. Metrics are reviewed periodically and rates revised as appropriate for changes in accounting methods, policies and procedures, and organizational structures. Rates and ratios are calculated annually and implemented for actual at the beginning of each year. Interim adjustments to allocations rates/ratios may be made for material events.

1. Headcount Ratio:

A ratio, the numerator of which is the headcount of the relevant organizational area of the Utility Company, and the denominator of which is total headcount of the relevant organizational area of the Utility Company.

2. Labor Hour Ratio:

A ratio, the numerator of which is the cost of labor (in hours) incurred by the provider entity's functional area, directly related to providing a particular service, and the denominator of which is the total cost of labor (in hours) incurred by that functional area directly related to providing that service to all Client Companies.

3. Level of Service Estimate:

A ratio, the numerator of which is the expected labor and non-labor direct costs of a specified service anticipated to be demanded by a Client Company, and the denominator of which is the aggregate anticipated demand (in direct cost dollars) from all Client Companies for such service.

4. Maximum Dependable Capacity Ratio (MDC):

A ratio, the numerator of which is the MDC of generation assets owned by a Client Company and the denominator of which is the MDC of all Client Companies.

- For Nuclear Generation Group services, only nuclear generation assets owned by Client Companies are to be considered.
- For Power Operations services, fossil-fired and hydro assets as well as combustion turbine and combined cycle units are considered as appropriate.

5. Total Customers Ratio:

A ratio, the numerator of which is the number of total retail residential, commercial, industrial and governmental electric (or gas, as applicable) customers of a Client Company and the denominator of which is the number of such customers of all Client Companies.

B. Progress Energy Carolinas Products and Services

PEC allocates goods and services based on both clearing account pools as well as product based services. While a small number of services are provided via product based pools, the majority of PEC's services are provided via clearing account pools. All services provided, regardless of the mechanism, are discussed below.

The following services have been defined to accumulate various PEC related common costs that are general in nature and allocated to the appropriate entities on a monthly basis. Each allocation pool is split into nine major resource types to identify Employee Labor, Outside Labor, Materials, Revenue, Fuel, Payroll Taxes, Benefits, Pensions and Other costs. Each pool is allocated via a pre-determined percentage to each target organization and/or legal entity.

➤ Customer & Market Services

- Customer Service Management
 - Description: Executive management for Customer Service.
 - Method of Allocation: Total Customers Ratio.
- Performance Solutions
 - Description: Call management scheduling, forecasting and monitoring; customer service training and support; and performance improvement projects.
 - Method of Allocation: Total Customers Ratio
- Utility Business Unit Demand Driven
 - Description: Service company support of Customer Service call center operations.
 - Method of Allocation: Total Customer Ratio or Headcount Ratio

➤ Distribution Engineering & Operations

- Work Management System
 - Description: Support of work management information systems implementation.
 - Method of Allocation: Level of Service Estimate
- Utility Business Unit Demand Driven
 - Description: Service company support of utility distribution organizations.
 - Method of Allocation: Level of Service Estimate

➤ Efficiency and Innovative Technology

- Efficiency and Innovative Technology
 - Description: Executive, administrative and support functions of the Efficiency and Innovative Technology organization.
 - Method of Allocation: Labor Hour Ratio

- Utility Business Unit Demand Driven
 - Description: Service company support of Efficiency & Innovative Technology organization.
 - Method of Allocation: Labor Hour Ratio
- **Energy Supply**
 - Energy Supply
 - Description: Energy Supply Business unit
 - Method of Allocation: Maximum Dependable Capacity Ratio
- **Fuels & Power Optimization**
 - Fleet Optimization
 - Description: Engineering services provided by Power Operations Group Strategies and R&D in support of Power Generation.
 - Method of Allocation: Maximum Dependable Capacity Ratio
 - Fossil Fuel
 - Description: Services involve the activity of coal supply, by-products and reagents, and transportation.
 - Method of Allocation: Level of Service Estimate
 - Fuel Forecasting
 - Description: Services provided by the Fuel forecasting and Regulatory Support organization.
 - Method of Allocation: Level of Service Estimate
 - Fuels & Power Optimization
 - Description: Executive, administrative and support functions of the Fuels & Power optimization organization.
 - Method of Allocation: Level of Service Estimate
 - Gas & Oil Trading Administration
 - Description: Provide management and oversight of fuel supply, storage, transportation and trading activities related to gas and oil.
 - Method of Allocation: Level of Service Estimate
 - Portfolio Management
 - Description: Support services include system operations coordination, provision of cost simulations, and establishing cost basis for trading.
 - Method of Allocation: Level of Service Estimate

- Power Trading
 - Description: Services provided by the Power Trading section related to market engagement for the purpose of power purchase, excess generation sales and fuel optimization.
 - Method of Allocation: Level of Service Estimate
- Utility Business Unit Demand Driven
 - Description: Service company support of Regulated Fuels and the Power Trading organizations
 - Method of Allocation: Level of Service Estimate
- **Generation Construction**
 - Utility Business Unit Demand Driven
 - Description: Service company support of the Generation and Transmission PM portal.
 - Method of Allocation: Level of Service Estimate
- **Nuclear Operations**
 - Chemistry
 - Description: Services related to Chemistry Services and Environmental Support.
 - Method of Allocation: Level of Service Estimate
 - Nuclear Material Services
 - Description: Nuclear Materials Services organization for administrative support of material controls.
 - Method of Allocation: Maximum Dependable Capacity Ratio
 - Nuclear Operations
 - Description: Management and administrative costs of the Nuclear Operations organization.
 - Method of Allocation: Maximum Dependable Capacity Ratio
 - Protective Services
 - Description: Services provided by the Nuclear Security section for administrative support for the nuclear plants.
 - Method of Allocation: Level of Service Estimate
 - Radiological and Metallurgical Services
 - Description: Services provided by the Radiological and Metallurgical organization of the Nuclear Engineering department.
 - Method of Allocation: Maximum Dependable Capacity Ratio

➤ **Nuclear Engineering**

- Nuclear Engineering
 - Description: Nuclear Engineering department probability and risk related costs.
 - Method of Allocation: Maximum Dependable Capacity Ratio
- Nuclear Engineering Fuel
 - Description: Nuclear fuel labor and miscellaneous costs incurred by the Nuclear Fuels Management and Safety organization.
 - Method of Allocation: Maximum Dependable Capacity Ratio
- Nuclear Engineering Management
 - Description: Supervisory type costs related to the Nuclear Engineering department head and staff.
 - Method of Allocation: Maximum Dependable Capacity Ratio
- Utility Business Unit Demand Driven
 - Description: Service company support of the Nuclear organization.
 - Method of Allocation: Maximum Dependable Capacity Ratio

➤ **Nuclear Oversight**

- Nuclear Oversight
 - Description: Nuclear management costs incurred by the Nuclear Oversight department.
 - Method of Allocation: Maximum Dependable Capacity Ratio

➤ **Nuclear Generation**

- Nuclear Generation
 - Description: Nuclear Management costs incurred by the Chief Nuclear Officer that are not directly chargeable to other departments.
 - Method of Allocation: Maximum Dependable Capacity Ratio

➤ **Nuclear Information Technology**

- Nuclear Information Technology
 - Description: General supervisory services related to the Nuclear IT section
 - Method of Allocation: Maximum Dependable Capacity Ratio

➤ **Power Generation**

- Power Generation
 - Description: Power Generation Engineering, Fuels & Power Optimization and Energy Supply Senior Executive for technical support for fossil, hydro and CT.
 - Method of Allocation: Maximum Dependable Capacity Ratio

- Utility Business Unit Demand Driven
 - Description: Service company support of the Power Generation Business improvement organization
 - Method of Allocation: Maximum Dependable Capacity Ratio
- **Transmission & Operations Planning**
 - Utility Business Unit Demand Driven
 - Description: Service company support of the Transmission department.
 - Method of Allocation: Level of Service Estimate

VII. Progress Energy Florida List of Metrics and Services

A. Progress Energy Florida Allocation Metrics

Progress Energy Florida's costs are direct charged to the extent possible. Costs that cannot be direct charged are allocated to the Client Company receiving the benefit using one of the following approved allocation metric ratios or rates. Metrics are reviewed periodically and rates revised as appropriate for changes in accounting methods, policies and procedures, and organizational structures. Rates and ratios are calculated annually and implemented for actual at the beginning of each year. Interim adjustments to allocations rates/ratios may be made for material events.

1. Headcount Ratio

A ratio, the numerator of which is the headcount of the relevant organizational area of the Utility Company, and the denominator of which is total headcount of the relevant organizational area of the Utility Company.

2. Maximum Dependable Capacity Ratio (MDC):

A ratio, the numerator of which is the MDC of generation assets owned by a Client Company and the denominator of which is the MDC of all Client Companies.

- For Nuclear Generation Group services, only nuclear generation assets owned by Client Companies are to be considered.
- For Power Operations services, fossil-fired and hydro assets as well as combustion turbine and combined cycle units are considered as appropriate.

3. Total Customers Ratio:

A ratio, the numerator of which is the number of total retail residential, commercial, industrial and governmental electric (or gas, as applicable) customers of a Client Company and the denominator of which is the number of such customers of all Client Companies.

B. Progress Energy Florida Products and Services

PEF allocates goods and services based on clearing account pools, as well as product based services. While a small number of services are provided via product based pools, the majority of PEF's services are direct charged or provided via clearing account pools. All services provided, regardless of the mechanism, are discussed below.

The following services have been defined to accumulate various PEF related common costs that are general in nature and allocated to the appropriate entities on a monthly basis. Each allocation pool is split into nine major resource types to identify Employee Labor, Outside Labor, Materials, Revenue, Fuel, Payroll Taxes, Benefits, Pensions and Other costs. Each pool is allocated via a pre-determined percentage to each target organization and/or legal entity. Direct costs are used whenever possible and only the Client company benefitting from the service receives allocations.

➤ **Corporate Development Group**

- Description: Services related to Generation Construction, Efficiency & Innovation Technology, Operational Readiness, Future Generation, New Generation Programs & Projects, Corporate Development, and CDG Business Services.
- Method of Allocation: Direct Cost

➤ **Corporate Relations & Admin Services**

- Description: Services related to Corporate Services, Real Estate, Warehouse Mgmt, Salvage & Freight, and Environmental Services.
- Method of Allocation: Direct Cost

➤ **Customer & Market Services**

- Management
 - Description: Executive management and related administrative services for the Customer & Marketing Services organization.
 - Method of Allocation: Direct Cost or Total Customers Ratio
- Performance Solutions
 - Description: Call management scheduling; forecasting and monitoring; customer service training and support; and performance improvement projects.
 - Method of Allocation: Direct Cost or Total Customers Ratio
- Utility Business Unit Demand Driven
 - Description: Service Company support of Desktop and Wireless services for Call Center operations. Costs are allocated to PEF Regulated & Non-Regulated accounts.
 - Method of Allocation: Headcount Ratio
 - Description: Service Company support of Business Application Services for PEF Call Center operations. Costs are allocated to PEF Regulated, Non-Regulated, and ECCR clause accounts.
 - Method of Allocation: Headcount Ratio

➤ **Energy Delivery Services**

- Description: Services related to Distribution Control Center, Asset Management,

Data Integrity Group, Environmental, Metering, Performance Support, and Resource Management & Construction.

- Method of Allocation: Direct Cost

➤ **Energy Supply**

- Power Generation
 - Description: Services related to Power Generation, Power Operations, Regulated Services, Regulated Fuels, Environmental Health & Safety, Power Generation Engineering, and Power Generation Business Improvement for fossil, hydro, and CT plants.
 - Method of Allocation: Direct Cost
- Utility Business Unit Demand Driven
 - Description: Service Company support of the Power Generation Group.
 - Method of Allocation: Maximum Dependable Capacity Ratio

➤ **Executive Management**

- Description: Services related to External Relations, External Affairs, Public Policy, and Economic Development.
- Method of Allocation: Direct Cost

➤ **Nuclear Generation Group**

- Nuclear Generation
 - Description: Services related to management and administrative costs for Nuclear Plant, Nuclear Projects & Construction, Nuclear Engineering, and Nuclear Operations.
 - Method of Allocation: Direct Cost

➤ **Telecom Services**

- Description: Services related to technical support activities for hardware, software, data, voice, wireless and video communications.
- Method of Allocation: Direct Cost

➤ **Transmission Operations & Planning**

- Description: Services related to Transmission Asset Management, System Planning & Regulatory Performance, Transmission Construction & Engineering, and Transmission Area Maintenance.
- Method of Allocation: Direct Cost